TD 97/20 - Income tax: what is the method for valuing fixed term pensions for the purposes of the reasonable benefit limits?

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, this Determination applies to years commencing both before and after its date of issue. However, this Determination does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Taxation Determination

Income tax: what is the method for valuing fixed term pensions for the purposes of the reasonable benefit limits?

1. Under subsection 140ZO(2) of the *Income Tax Assessment Act 1936* (ITAA), the Commissioner must determine in writing a method for calculating the **capital value** of a superannuation pension that is not payable for life. A pension that is payable for a fixed term comes within this subsection as it is not payable for life.

2. The formula used to determine the capital value of a fixed term pension is:

   Capital Value = (C x F) - UPP + RCV

   where:

   C   is the annualised amount of the first regular payment. It is calculated by multiplying the first regular payment by the greatest number of pension payments which are expected during the first 12 months, beginning at the time the pension is paid.

   F   is the pension valuation factor set out in the Table of Pension Valuation Factors for Fixed Term Pensions attached to this Determination.

   UPP   is the undeducted purchase price of the pension.

   RCV   is the present value of the residual future capital value of the pension calculated by using the formula:

   $$RCV = A / (1.1)^n$$

   where: **A**   is the residual capital value of the pension. This is the dollar amount the fund expects will be paid as a lump sum after a fixed term of n years.

n   is the number of years, or parts of a year, between the commencement day of the pension and the payment of the residual capital value.

3.   The capital value calculated above is used to determine whether a fixed term pension paid to a person is within the person's lump sum or pension reasonable benefit limits (RBLs), as appropriate. Subject to some limited exceptions, a fixed term pension is a **rebatable superannuation pension** as defined in section 159SJ. In terms of paragraph 140ZK(a), the RBL amount of a rebatable superannuation pension is the **capital value** of the pension.

4.   The compulsory characteristics of a fixed term pension are set out in subregulation 1.06(6) of the Superannuation Industry (Supervision) Regulations (SISR). In addition, a fixed term pension will not satisfy all of the complying pension requirements of the pension and annuity standards in regulation 53J of the Income Tax Regulations and subregulations 1.05(2) and 1.06(2) of the SISR.

5.   Where the indexation rate or the term of the pension lies outside the range of values specified in the Table of Pension Valuation Factors, full details surrounding the particular fixed term pension should be provided to the ATO in order to determine the relevant valuation factor.

6.   The Commissioner has determined that the indexation rate for pensions of 1 year or less will be 1.00.

7.   The values in the Table of Pension Valuation Factors are to be used for benefits which are assessed against a person's RBL from the date of this Determination.

Example 1

Mark has decided to retire and take a fixed term pension. The pension that he has selected will be for 20 years and will be indexed at 5% pa. The initial monthly payment of the pension will be $1,200 and it has an undeducted purchase price of $80,000. There is no residual capital value. Costs associated with the purchase of the pension are not deducted.

For the purposes of applying the RBLs, the capital value of the pension is calculated as:

$$Capital\ Value \quad = \quad (\$14,400\ x\ 12.77)\ -\ \$80,000\ +\ \$0$$

$$= \quad \$103,888.$$

As Mark's fixed term pension is a rebatable superannuation pension, the RBL amount of it is as calculated above. Therefore, $103,888 will be used to determine whether the payment is in excess of his lump sum or pension RBL, as appropriate.

Commissioner of Taxation
1 October 1997

**TABLE OF PENSION VALUATION FACTORS
FOR FIXED TERM PENSIONS**

Pension Term (years)	Indexation Rate								
	0.00%	1.00%	2.00%	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%
1	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
2	1.82	1.84	1.85	1.87	1.89	1.91	1.92	1.94	1.96
3	2.61	2.64	2.68	2.72	2.75	2.79	2.83	2.87	2.91
4	3.33	3.38	3.44	3.50	3.57	3.63	3.70	3.77	3.85
5	3.98	4.06	4.15	4.24	4.34	4.44	4.54	4.65	4.76
6	4.57	4.68	4.81	4.93	5.06	5.20	5.35	5.50	5.66
7	5.11	5.26	5.41	5.58	5.75	5.93	6.12	6.32	6.54
8	5.60	5.78	5.97	6.18	6.39	6.62	6.87	7.12	7.40
9	6.04	6.26	6.49	6.74	7.00	7.28	7.58	7.90	8.24
10	6.45	6.70	6.98	7.27	7.58	7.91	8.27	8.66	9.07
11	6.81	7.11	7.42	7.76	8.12	8.51	8.93	9.39	9.88
12	7.15	7.48	7.83	8.22	8.63	9.08	9.57	10.10	10.68
13	7.45	7.82	8.22	8.65	9.12	9.63	10.18	10.79	11.46
14	7.73	8.13	8.57	9.05	9.57	10.14	10.77	11.46	12.23
15	7.98	8.42	8.90	9.42	10.00	10.64	11.34	12.12	12.98
16	8.21	8.68	9.20	9.77	10.41	11.11	11.88	12.75	13.71
17	8.42	8.92	9.48	10.10	10.79	11.55	12.41	13.36	14.43
18	8.60	9.14	9.74	10.41	11.15	11.98	12.91	13.96	15.14
19	8.78	9.35	9.98	10.69	11.49	12.38	13.39	14.54	15.83
20	8.93	9.53	10.21	10.96	11.81	12.77	13.86	15.10	16.51
21	9.07	9.70	10.41	11.21	12.11	13.14	14.31	15.65	17.18
22	9.20	9.86	10.60	11.44	12.40	13.49	14.74	16.17	17.83
23	9.32	10.01	10.78	11.66	12.67	13.82	15.15	16.69	18.47
24	9.43	10.14	10.94	11.87	12.92	14.14	15.55	17.19	19.10
25	9.52	10.26	11.10	12.06	13.16	14.44	15.93	17.67	19.72
26	9.61	10.37	11.24	12.24	13.39	14.73	16.30	18.14	20.32
27	9.69	10.47	11.37	12.40	13.60	15.01	16.65	18.60	20.91
28	9.76	10.56	11.49	12.56	13.80	15.27	16.99	19.04	21.49
29	9.83	10.65	11.60	12.70	13.99	15.52	17.32	19.47	22.06
30	9.89	10.73	11.70	12.84	14.17	15.75	17.64	19.89	22.62